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California Takes on the Retirement Crisis

Governor Brown could put his state, and the nation, on a path to greater economic security

When you think of California as a trendsetter, retirement policy is probably not the first thing that comes to mind, but that may soon change.

A bill recently passed by the California Legislature creates the foundation for a savings plan to cover the state's 6.3 million private-sector employees who have no retirement coverage at work. The plan also could serve as a model for addressing a national problem: Americans for the most part are ill-prepared for retirement, either because they have risky 401(k) plans or inadequate savings or no retirement coverage at all.

Memo to Gov. Jerry Brown: Please sign this bill.

The new law is aimed at finding a way to cover the uncovered without the considerable expense and market risks inherent in 401(k)'s.

Specifically, the legislation calls for research to settle the technical and legal issues that stand in the way of enacting a public-private partnership that would be called the California Secure Choice Retirement Savings Program. Eligible employees would have 3 percent of pay deducted from their paychecks, unless they opted out. The employee contributions would be pooled and conservatively managed by professional investment managers chosen by the state through a bid process. That could include private firms and the California Public Employees' Retirement System, the big public pension manager. The program would be overseen by a board of public and private sector leaders, appointed by the governor and the Legislature.

One of the advantages of the plan is that pooled contributions and professional management would reduce admin-

istrative costs and investing mistakes, which would boost returns beyond what most 401(k) investors achieve on their own.

The plan also calls for a guaranteed minimum return, via private insurance and reserves. That would be expensive, so the guarantee would likely be very modest, but it would ensure that all participants ended up with something, without requiring taxpayers to incur the risk of making good on investments gone bad.

Most of the opposition has come from the financial industry, undoubtedly because the plan would be a better deal than many of the retirement products they have on offer. Of course, they do not put it that way.

Instead, criticism has linked the new system to public pensions, which have been widely criticized as fiscally irresponsible. The connection is misleading. The new plan is essentially an automatic individual retirement account, with improvements including professional management, not a traditional pension. Nor is the plan entirely novel. Rather, it is akin to the successful annuity fund offered to colleges and nonprofits, and to several international retirement systems.

The California plan also represents the wave of the future. Eleven states have debated similar plans, with Massachusetts recently adopting a version for employees in the nonprofit sector. In Connecticut, the House recently passed legislation to study how a new system could work in that state, though the Senate defeated the measure.

At this point, however, even states that have taken steps to address the retirement crisis are watching what California does. We hope it leads the way.